

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

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| IN RE: LIBERTY UTILITIES (MIDSTATES NATURAL GAS) CORP., d/b/a LIBERTY UTILITIES | DOCKET NO. RPU-2016-0003 (TF-2016-0303, TF-2016-0304, TF-2016-0305, TF-2016-0306) |
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**ORDER REQUIRING ADDITIONAL INFORMATION
AND OUTLINING SETTLEMENT PROCESS**

(Issued October 21, 2016)

On July 25, 2016, Liberty Utilities (Midstates Natural Gas) Corp., d/b/a Liberty Utilities (Liberty), filed with the Utilities Board (Board) an application to increase its annual revenues by approximately \$1 million, or approximately 61.3 percent, pursuant to Iowa Code § 476.6 and chapter 26 of the Board's administrative rules. Liberty also filed proposed tariff revisions, identified as TF-2016-0304, TF-2016-0305, and TF-2016-0306, which would implement the rate increase in three phases, with the full increase in effect as specified in TF-2016-0306.

Liberty also filed a tariff, identified as TF-2016-0303, which increases the company's annual revenues on a temporary basis in the amount of \$528,569.50. Pursuant to Iowa Code § 476.6(9)(b), Liberty implemented the temporary rates on August 4, 2016, ten days after the July 25, 2016, filing.

On August 5, 2016, the Office of Consumer Advocate (OCA), a division of the Iowa Department of Justice, filed an objection to the rate application and a request

that the Board docket the application and establish a procedural schedule to allow sufficient time for OCA and interested parties to investigate the application.

On August 16, 2016, the Board issued an order approving Liberty's corporate undertaking, docketing the proposed tariffs, requiring additional information, and setting a procedural schedule. The Board modified the procedural schedule in an order issued on September 23, 2016. In this order, the Board will direct Liberty to provide additional information and will discuss procedures to be followed in the event the parties reach a settlement.

After review of the information Liberty provided in its application and in response to the August 16 order, the Board has further questions and requires the following additional information from Liberty:

1. *Weather Normalization.* In Docket No. WRU-2016-0006-0222, Liberty asked for a waiver of several provisions of the Board's rate case rules in 199 IAC chapter 26, including 199 IAC 26.5(5)(e)(22), which requires an applicant to file a schedule for weather normalization, including details of the method used. Liberty asked that it be allowed to use the weather normalization information that it uses to compile its purchased gas adjustment (PGA). The Board granted the request for a waiver on March 25, 2016.

Liberty witness Schwartz sponsors Liberty's weather normalization adjustment to revenues and consumption and refers to Exhibit JMS-3, Schedule 4 in direct testimony. That schedule provides actual monthly sales volumes for all classes, weather normalized volumes for the weather-

sensitive customers, and actual volumes by customer class for the 2015 test year. However, in its initial filing Liberty did not provide the weather normalization model and inputs used to produce the results which are necessary in order to verify billing units. In the August 16 order requiring additional information, the Board directed Liberty to provide the weather normalization spreadsheet containing the weather normalization model and inputs used to produce those results.

On August 26, Liberty provided documentation containing the results of the weather normalization model from Docket No. PGA-2015-0032, the annual forecast Liberty filed in August of 2015. That filing produces weather normalized volumes based on actual sales volumes for the period June 2014 through May 2015.

It appears that Liberty's August 26 filing is not consistent with the waiver that was granted regarding weather normalization data. Liberty asked for permission to use a specific model, not permission to use outdated model inputs. To derive the information filed on August 26, Liberty used the appropriate model with the wrong inputs. The model inputs should have been updated to include actual 2015 calendar year (the test year) sales volumes. Also, the input heating degree days (HDDs) should have been updated to reflect finalized information, which is available on the State Climatologist's Web site. The weather normalized sales data is used in multiple places throughout the docket, e.g., to derive the weather normalization revenue

adjustment, in billing determinants, and in the cost-of-service study. Use of the out-of-period weather normalized sales creates a mismatch between weather normalized sales data and the other components of the case which are based on test year data.

The Board will require Liberty to recalculate weather normalized sales based on test year (calendar year 2015) actual sales and final test year (calendar year 2015) HDDs. The model inputs shall include actual monthly sales and customer numbers for January through December 2015, actual HDDs from December 2014 through December 2015, and the 30-year normal HDDs. The allowable base load periods when calculating weather normalized sales for a PGA year or a calendar year shall include the three-month periods beginning with May, June, and July. Liberty should (a) provide the results of the recalculation and the spreadsheet used to develop the results and (b) update all filed exhibits using test year (calendar year 2015) weather normalized sales. Liberty should (a) provide the results of the recalculation and the spreadsheet used to develop the results and (b) update all filed exhibits using test year (calendar year 2015) weather normalized sales.

2. Explain why Liberty weather normalized the commercial and industrial interruptible sales volumes in JMS Exhibit 3, Schedule 4, when the established methodology for weather normalization of natural gas sales volumes (used in

Liberty's PGA filings each year) normalizes only residential and commercial firm sales volumes.

3. Provide a document reconciling the volumes and customer counts filed in Liberty's 2015 Form IG-1 (filed in 2016) to the updated volumes and customer counts used in the updated weather normalization exhibit, JMS Exhibit 3, Schedule 4, TSL Exhibit 6, page 1, and TSL Exhibit 7, page 2 of 4.

4. Provide the information listed below for each customer in the current Commercial Firm (320) and Commercial Interruptible (330) rate groups:

- a. Customer name or account number;
- b. The current tariff schedule applicable to the customer;
- c. The proposed tariff schedule applicable to the customer;
- d. Total 2015 actual therms;
- e. Total margin based on current rates and total therms;
- f. Total customer charges based on current rates;
- g. Total margin based on proposed final rates and total therms;
- h. Total customer charges based on proposed final rates;
- i. The difference between total margin based on current (item e) and proposed rates (item g);
- j. The difference between total customer charges based on current (item f) and proposed rates (item h);
- k. Total margin and customer charges based on current rates (sum of items e and f);
- l. Total margin and customer charges based on proposed rates (sum of items g and h);
- m. The percentage change between total margin based on current rates (item k) and proposed rates (item l).
- n. Identify which customers are master metered.

5. Explain why in Exhibit TSL-7, page 2 of 4, master metered customers are not included individually in the customer counts for the residential and commercial classes.

6. Regarding Liberty witness Magee's direct testimony on page 56, lines 6-10:

- a. Does Liberty Midstates have its own capital structure separate from LUCo.?
- b. If yes:
 - i. Explain why Liberty provided LUCo.'s capital structure data as part of the Board's minimum filing requirements rather than the capital structure data for Liberty Midstates.
 - ii. Provide the information defined by minimum filing requirements at 199 IAC 26.5(5)(e)(3) and 26.5(5)(e)(13) – (15) for Liberty Midstates.

7. Regarding the gate station project discussed on pages 6 and 7 of

Liberty witness Schwartz's direct testimony:

- a. Provide a map showing the location of the two gate stations and the pipeline.
- b. Provide additional detail regarding the work that will be performed and the status of the work, e.g. percent complete.
- c. Explain why Liberty believes the gate station project will result in a reclassification of the line from transmission to distribution.
- d. Provide five years of history for the expense associated with the digs and the expense associated with the maintenance of the in-line heater.
- e. Was an adjustment made to test year expenses to reflect the reduced expenses associated with this project?

8. Why does the pro forma adjustment for the loss of a major customer in

JMS-Exhibit 3 use December 2014 data instead of December 2015 data?

9. Provide a revised cost-of-service study that fully allocates current costs to the contract customer discussed on page 12, lines 12-15, of Liberty witness Lyons's direct testimony. The revised allocations should be developed consistent with the methodology used in the initial study and be based on test year (calendar year 2015) weather normalized sales.

10. Provide a summary which compares the total costs allocated to each customer class using the initial and revised cost-of-service studies. Both studies should be based on test year (calendar year 2015) weather normalized sales.

11. Did the company consider options for filing a simplified case to reduce rate case expense? If yes, what options were considered and what steps were taken to accomplish such a filing?

Settlement Procedures

If the parties to this proceeding reach a settlement that resolves any of the contested issues, the settlement must comply with the provisions of 199 IAC 7.18. If a unanimous settlement is reached among the parties, the Board is required to consider whether the “settlement is reasonable in light of the whole record, consistent with law, and in the public interest.” In addition, 199 IAC 7.18(1) requires that a motion for the Board to approve a settlement contain a statement adequate to advise the Board of the scope of the settlement and the grounds on which adoption is requested. Non-unanimous settlements must follow the procedures described in 199 IAC 7.18(2) – (5).

To ensure that the Board has the necessary evidence in the record in this docket to fulfill the requirements of the rule, the parties to any unanimous settlement in this docket shall either cite to those portions of the record that support the terms of the settlement or provide the Board with additional evidence to support the terms of the settlement. The Board understands that negotiations between the parties are confidential and not admissible pursuant to Board rule and Iowa R. Evid. 5.408;

however, this does not preclude the Board from requesting additional information about the terms of a settlement.

Based upon a review of the terms of a settlement, the record, and any additional information requested by the Board, a settlement may be approved as filed, rejected, or the Board may approve the settlement with modifications that will then need to be considered by the parties. If modifications are made by the Board to a settlement, the signatory parties will be given the opportunity to either accept the modifications or to have any issues that are not accepted presented to the Board at a hearing.

IT IS THEREFORE ORDERED:

Liberty Utilities (Midstates Natural Gas) Corp., d/b/a Liberty Utilities, shall provide the information identified in the body of this order on or before October 31, 2016.

UTILITIES BOARD

/s/ Geri D. Huser

/s/ Elizabeth S. Jacobs

ATTEST:

/s/ Trisha M. Quijano
Executive Secretary, Designee

/s/ Nick Wagner

Dated at Des Moines, Iowa, this 21st day of October 2016.